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IN THE

Supreme Court of the United States

October Term, 1955

No.

PRODUCTIVE INVENTIONS, INC., a corporation, *Petitioner*,

v.

TRICO PRODUCTS CORPORATION, a corporation, *Respondent*.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, Productive Inventions, Inc., respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Second Circuit entered in the above entitled case on July 20, 1955.

OPINIONS BELOW

The unreported opinion of the District Court is printed at page 3 of the separate Appendix.[1] The opinion of the Court of Appeals, appended to this petition (*infra* 1a), is reported at 224 F. 2d 678.

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[1] The separate Appendix, as used in the court below, is hereafter cited as (App).

JURISDICTION

The judgment of the Court of Appeals was entered on July 20, 1955 (*infra*, 4a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

QUESTION PRESENTED

Section 4 of the Clayton Act confers a right of action for treble damages upon "any person ... injured in his business or property by reason of anything forbidden in the antitrust laws." Is a patentee who licenses rather than manufactures patented devices precluded as a matter of law from maintaining an action under this Section for injury resulting from the foreclosure and attempted foreclosure of the market by the admitted antitrust violations of a manufacturer of competing devices?

Or, as stated by the Court of Appeals for the Second Circuit,

> "Is a patentee who has granted to another an exclusive license for the term of the patent, upon a royalty basis, a 'person * * * injured in his business or property' (within the meaning of Section 4 of the Clayton Act) so as to enable him to recover treble damages for loss of royalties on sales that might have been made by its licensee save for the anti-trust violations of defendant?"

STATUTE INVOLVED

Act of October 15, 1914, c. 323, § 4, 38 Stat. 731, 15 U.S.C.A. § 15 (1951).

> Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an

agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

STATEMENT

Petitioner Productive Inventions, Inc. (hereinafter called Productive), plaintiff below, is engaged in the business of developing, patenting and licensing inventions on windshield wiper devices[2] for motor vehicles. Respondent Trico Products Corporation (hereinafter called Trico), defendant below, manufactures and sells windshield wiper devices and also, in the words of the Court of Appeals, "engages in some experimental work and has an interest in certain patents on the devices it markets" (*infra* 2a). The Anderson Company (hereinafter called Anco), a plaintiff below but not a party to this proceeding, manufactures and sells windshield wiper devices embodying Productive's inventions as exclusive licensee under its patents (App 10).

On March 26, 1953, Productive and Anco jointly brought an action to recover damages for, and to enjoin antitrust violations (Count I) and patent infringement (Count II) by respondent Trico (App 4). The antitrust complaint alleged that Trico had, in violation of Section 3 of the Clayton Act, sold and entered into contracts of sale of windshield wiper devices on condition that purchasers would not deal in competing devices, including those manufactured by Anco under Productive's patents (App 10). The complaint also

[2] The windshield wiper devices, or "components," involved in this litigation are defined in the complaint as "the motor, the blade, the arm, and the linkage assembly" (App. 5).

alleged that Trico had, in violation of Section 2 of the Sherman Act, attempted to monopolize and had monopolized interstate commerce in the manufacture and sale of windshield wiper motors, arms and blades (App 10). In particular, it was charged that Trico furthered these violations by, among others, (1) falsely representing to customers and potential customers that Anco's windshield wiper devices embodying Productive's inventions infringed Trico patents, (2) filing patent applications on inventions which Trico knew had long been in the public domain, (3) filing patent applications on inventions to which Trico knew Productive and Anco had lawfully acquired prior rights, for the purpose of using such applications as a basis for instituting harassing and delaying interference proceedings, and (4) instituting harassing and groundless patent infringement suits involving devices manufactured by Anco under licenses from Productive (App 11-14). Finally, the complaint alleged that had the sale of devices manufactured by Anco under exclusive licenses from Productive not been restrained by the unlawful activities of Trico, Anco would have sold additional windshield wiper devices and Productive would have received additional royalties on the sale of such devices (App 15). As a direct and proximate result of Trico's unlawful activities, Productive alleged damages in the sum of $396,373.40 (App 15) and prayed for treble that amount (App 16).

On May 7, 1954, Trico moved for summary judgment against Productive as to Count I on the ground that Productive was not injured in its business or property within the meaning of the antitrust laws

(App 25). The District Court granted the motion (App 3), dismissed Productive's complaint (App 2) and filed the certificate as to finality of judgment required by Rule 54(b) of the Federal Rules of Civil Procedure (App 2a). The Court of Appeals affirmed (*infra* 1a).

REASONS FOR GRANTING THE WRIT

1. This case presents a substantial question of federal law, never decided by this Court, involving the administration of the antitrust statutes and the right of patentees to invoke the protection of those statutes. The particular provision concerned—Section 4 of the Clayton Act (15 U.S.C.A. § 15)—is the basic statute under which all private antitrust treble damage actions must be brought. It says simply that any person whose business or property is injured by reason of antitrust violations may sue for treble damages. This case, in particular, sharply and formidably poses the question of properly defining the scope of Section 4 as it relates to patentees. Arising on a motion for summary judgment, it is untainted by factual issues or alternative grounds which so often becloud the presentation of otherwise important matters.[3] The undisputed or, for purposes of the motion, conceded facts here include:

a. Violations of the antitrust laws by respondent—an integrated patentee-manufacturer of windshield wiper devices.

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[3] E.g. *Harrison* v. *Paramount Pictures, Inc.*, 115 F. Supp. 312 (E.D. Penna.), affirmed 211 F. 2d 405 (CA 3), cert. denied 348 U.S. 828, where the jury verdict was adverse to plaintiff, and the court conceded that its ruling that plaintiff lacked standing under Section 4 was dictum.

b. Injury to petitioner—a patentee of competing devices—attributable solely to the acts of respondent.

c. Literal compliance by petitioner with all terms of Section 4.[4]

d. Absence of any alternative or derivative remedy by petitioner against respondent.

Despite these elements, the court below held that the patentee was precluded as a matter of law from maintaining its action under Section 4 for the damages resulting from respondent's foreclosure of the market for patented devices.

The significance of the ruling below to patentees who license rather than manufacture their inventions is awesome. It means that the antitrust laws will no longer protect their sole source of income—that restraints may be leveled against their business and property with impunity. In the typical case, with which this petition deals, the patentee's income is almost[5] wholly dependent upon sales of the product embodying his patent. When the patentee's invention is fabricated by his licensee and enters the market for competing devices, a fixed portion (e.g. 3%) of the price at which each and every device is sold belongs directly to the pat-

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[4] Productive, being a corporation, is a "person" within the meaning of 15 U.S.C.A. § 12. And diminution or cutting off of a patentee's royalty income, being damage "in the money of the plaintiff," is injury to "business or property." *Chattanooga Foundry & Pipe Works* v. *City of Atlanta*, 203 U.S. 390, 397.

[5] In this case, for example, a fixed minimum royalty was provided for in the license agreement. As conceded by respondent, however, this minimum has during all of the relevant period been greatly exceeded (App 29).

entee. If sales of the patented device are unlawfully restrained, the patentee's royalties and the manufacturer's profits are each concomitantly restrained. The manufacturer, to be sure, may bring an antitrust suit to recover his lost profit; he may not, however, as the court below observed (*infra* 4a n. 1), include the royalties he would owe to the patentee in his quantum of recovery. As to a manufacturer, royalties payable are mere cost. Only the patentee can claim injury for the extent to which the sales restrained would have produced royalty revenue. Yet if the decision below is permitted to stand, this sum will be recoverable by no one.

The court below based its decision on the theory that a patentee's injury is "incidental" and "remote." But as indicated above, one who monopolizes or otherwise restrains commerce in a patented product injures both the patentee and the licensee-manufacturer simultaneously and at the identical point: the lost sale. No distinction in substance exists between these joint victims in terms of the directness or remoteness of their respective injuries. The distinction announced by the court below is based upon form alone. If Productive and Anco were, like Trico, an integrated corporation which both patented and manufactured windshield wiper devices, such corporation could undoubtedly recover, as the measure of its lost profit on sales Trico restrained it from making, the difference between its gross revenue on lost sales and the costs attributable to such sales. In such a situation, "costs" would include no royalties payable to others, and the integrated corporation's quantum of recovery would embrace profit on both patenting and manufacturing. Thus, a decision disqualifying the

unintegrated patentee as "remote" unjustifiably, and without apparent reason, diminishes the defendant's normal liability and excludes one of the two equally injured parties from all relief. The decision below thus creates precisely the situation which the Ninth Circuit in *Karseal Corporation* v. *Richfield Oil Corporation*, 221 F. 2d 358, avoided in dealing with the manufacturer-distributor relationship. "It tells" a patentee "that he may have the protection of the antitrust laws in private litigation if he" manufactures patented products himself, "and not have such protection if he decides to contract with a" person who will manufacture them for him. Cf. 221 F. 2d at 364-5.

Common law principles applied by this Court also refute the "remote" label pinned on the patentee below. Productive's claim does not concern *unintended* injuries *negligently* inflicted upon manufacturer Anco by a defendant "who knew nothing" of Productive's patents. Cf. *Robins Dry Dock & Repair Co.* v. *Flint*, 275 U.S. 303. Rather, the complaint charges Trico with the *intentional* commission of acts, forbidden by the antitrust laws, designed to depreciate and injure Productive's patents and eliminate sales of products licensed thereunder. See page 4 *supra*. Injuries sustained under such circumstances have long been considered to be proximately caused by the defendant's wrongful actions and have therefore been held remediable at common law. Cf. *Angle* v. *Chicago, St.P.M.& O.R. Co.*, 151 U.S. 1.

By excluding admittedly injured persons from recovering against admitted wrongdoers for intentional conduct which was the sole cause of the injuries sustained, the decision below patently departs from the plain language of the statute. Moreover, it is not in

accord with the applicable principles articulated by this Court. In *United States* v. *National City Lines, Inc.*, 334 U.S. 573, 581, this Court stated that the Clayton Act was intended by Congress "to provide broader and more effective relief, both substantively and procedurally, for persons injured by violations of its antitrust policy." And in *United States* v. *Cooper Corporation*, 312 U.S. 600, 605, this Court carefully enunciated the rule of interpretation governing the language of Section 4[6] of the Clayton Act:

> "Decision is not to be reached by a strict construction of the words of the Act, nor by the application of artificial canons of construction. On the contrary, we are to read the statutory language in its ordinary and natural sense, and if doubts remain, resolve them in the light, not only of the policy intended to be served by the enactment, but, as well, by all other available aids to construction."

The importance of the question petitioner here presents is magnified by the difficulty lower federal courts have long experienced in interpreting Section 4. The tests they have formulated for discerning eligible plaintiffs include, among others:

a. His injury must not be "derivative."[7]

b. His injury must not be "indirect," "remote," "consequential" or "incidental."[8]

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[6] The language was then contained in Section 7 of the Sherman Act which has since been repealed (Public Law 135, 84th Cong.) because it was encompassed by Section 4 of the Clayton Act.

[7] E.g. *Peter* v. *Western Newspaper Union*, 200 F. 2d 867 (CA 5).

[8] E.g. *Loeb* v. *Eastman Kodak Co.*, 183 Fed. 704 (CA 3).

c. "He is within that area of the economy which is endangered by a breakdown of competitive conditions in a particular industry."[9]

d. The antitrust violations must not only "hit" him but also be "aimed at" him.[10]

Under these tests, lower courts have divided on the standing to sue of landlords[11] and of patentees.[12] In addition, their applications of these tests have resulted in holdings that corporate stockholders,[13] cred-

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[9] *Conference of Studio Unions* v. *Loew's Inc.*, 193 F. 2d 51, 54-5 (CA 9), cert. denied 342 U.S. 919.

[10] *Karseal Corporation* v. *Richfield Oil Corporation*, 221 F. 2d 358, 362 (CA 9).

[11] Compare *Harrison* v. *Paramount Pictures, Inc.*, 115 F. Supp. 312 (E.D. Penna.), affirmed 211 F. 2d 405 (CA 3), cert. denied 348 U.S. 828, with *Camrel Co., Inc.* v. *Paramount Film Distributing Corp.*, CCH Trade Cases, Par. 57,233 (S.D.N.Y. 1944).

[12] Compare decision below with *La Chapelle* v. *United Shoe Machinery Corp.*, 90 F. Supp. 721 (D. Mass.). And see *Rossman* v. *Pullman Co.*, 15 F. Supp. 325 (S.D.N.Y.), which the court below did not discuss and in which the district court had ruled against the plaintiff patentee's claim solely because of evidential deficiencies:

> "There is no evidence that any other person was ready, able, and willing to make, use, or sell, under license from her, any of the alleged patented improvements. There is no evidence that she submitted these patents indeed to the Pullman Company or the Pullman Manufacturing Company, or to any company engaged in the manufacture, use, or sale of sleeping cars or their equipment."

[13] E.g. *Peterson* v. *Borden Co.*, 50 F. 2d 644 (CA 7).

itors[14], and officers[15] may not sue, unless their injury is distinct from that of the corporation;[16] and that employees may not sue,[17] unless they are commissioned salesmen.[18] These distinctions, however, failed to impress the court below, for it ruled against the patentee despite the facts that (1) its injury was distinct from that of its licensee and (2) its royalty income was, like that of commissioned salesmen, geared to each individual sale of the manufacturer's product. Just as in the case of commissioned salesmen, the mere fact that the patentee's injury is *measured by* the manufacturer's lost sales does not make it indirect. It is the directness of the *injury*, not of its *method of measurement*, that constitutes the test of standing.

The morass of doctrines and confused pattern of results make it small wonder that the District Court in *Harrison* was compelled to observe that the decisions "are far from being in accord or establishing any clearly defined rule." 115 F. Supp. at 317. Only this Court can resolve the confusion which 50 years of lower court struggles with Section 4 have produced.

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[14] E.g. *Loeb* v. *Eastman Kodak Co., supra.*

[15] E.g. *Corey* v. *Independent Ice Co.*, 207 Fed. 459 (D. Mass.)

[16] E.g. *Ames* v. *American Telephone and Telegraph Co.*, 166 Fed. 820 (D. Mass.) and *Peter* v. *Western Newspaper Union, supra*, at 872.

[17] E.g. *Gerli* v. *Silk Ass'n. of America*, 36 F. 2d 959 (S.D.N.Y.).

[18] E.g. *Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F. 2d 416 (CA 10), cert. denied 344 U.S. 837; *McWhirter* v. *Monroe Calculating Mach. Co., Inc.*, 76 F. Supp. 456 (W.D. Mo.); *Vines* v. *General Outdoor Advertising Co., Inc.*, 171 F. 2d 487 (CA 2); *Roseland* v. *Phister Mfg. Co.*, 125 F. 2d 417 (CA 7); and *Klein* v. *Sales Builders, Inc.*, CCH Trade Cases, Par. 62,600 (N.D. Ill. 1950).

And only this Court can restore to patentees their right to protection under the antitrust laws.

2. The decision of the court below conflicts in principle with that of the Court of Appeals for the Ninth Circuit in *Karseal Corporation* v. *Richfield Oil Corporation,* 221 F. 2d 358. Karseal, a manufacturer of car wax, was engaged in selling its wax to various independent distributors. The distributors, in turn, resold the wax to independent service stations. Richfield, a manufacturer of petroleum products but not of wax, sponsored certain auto accessories including car waxes produced by parties other than Karseal. Richfield sold and distributed such waxes to independent service stations. The gist of the complaint was that Richfield, by exclusive dealing arrangements with the independent service stations in violation of Section 1 of the Sherman Act and Section 3 of the Clayton Act, foreclosed such stations to the distributors who had bought wax from Karseal; this in turn resulted in a decrease of the distributors' purchases from Karseal. As stated by the Court of Appeals:

> "The action is brought by Karseal, who it is alleged, was the manufacturer of a wax, selling to independent distributors, who in turn were prevented or impeded in selling it to the 2965 independent Richfield service stations by reason of Richfield's illegal practices in violation of the antitrust laws." 221 F. 2d at 362.

The Ninth Circuit allowed Karseal to maintain its action despite the fact that it had no direct dealings in the market place where the restraints were applied—i.e. the independent service stations.

The parallel between the claims of Karseal and Productive is striking. In each instance the restraints

on sales occur at the independent service station level, where neither plaintiff has any "direct" or "face to face" business dealings and where car wax and windshield wipers both are retailed to the consumer. Instead, in each instance the plaintiff is one step removed from the point where restraints are applied: Karseal sells wax to distributors who, competing with Richfield, are the parties restrained from selling wax to service stations; Productive licenses patent rights to Anco who, competing with Trico, is the party restrained from selling the patented devices to service stations. In two respects Productive's case is factually more compelling than Karseal's: (1) Karseal sells its products *outright* to the independent distributor, whereas Productive does not; it retains a royalty interest in the ultimate sale of each patented device. (2) Richfield is not a competitor of Karseal in the manufacture of wax, whereas Productive and Trico do compete in the development and patenting of windshield wiper inventions. As alleged in the complaint, Trico harassed, interfered with and made false representations concerning Productive's inventions and patents in furtherance of its scheme to monopolize the windshield wiper industry.

Despite these elements of similarity, the Second Circuit—to whom the recently-decided *Karseal* was cited on oral argument—declined to follow or mention the Ninth Circuit's case and arrived at its contrary conclusion. The contrast between these cases affords an additional reason for this Court's grant of certiorari. It demonstrates graphically the uncertainty and disorder which prevail in the administration of the statute which must open or bar the door to relief from antitrust violations.

CONCLUSION

For the foregoing reasons the petition for certiorari should be granted.

Respectfully submitted,

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